A&W Revenue Royalties Income Fund

2002

ANNUAL REPORT

Building Trust

About the A&W Revenue Royalties Income Fund

The A&W Revenue Royalties Income Fund owns the A&W trade-marks, which include some of the strongest brand names in the Canadian foodservice industry. It licences these trade-marks to A&W Food Services of Canada Inc. in exchange for a royalty of 3% of the gross sales of 585 A&W restaurants across Canada.

This structure makes the A&W Revenue Royalties Income Fund a "top-line" fund because income is based solely on the gross sales of A&W restaurants, minus the Fund's minimal operating expenses. As a result, the Fund is not subject to the variability of earnings or expenses associated with an operating business.

A&W's Climate Goals

LISTENING – We pay sincere attention and actively listen to each other and our customers. Feelings are real and accepted as facts.

TRUST – We believe each other, have confidence in each other and rely on each other as friends.

SELF-RESPONSIBILITY – I care for myself by taking responsibility for and being proud of my own growth, my relationship with others and my achievements.

APPRECIATION – I feel cared for by my friends. They recognize, support and appreciate me.

TEAMS – Our talent is unleashed through teams focused on developing and achieving shared goals.

GETTING BETTER – We act quickly on what we learn from our customers.

BEING EXTRAORDINARY – I act courageously, quickly and at times "unreasonably" to create the future. I am committed to being extraordinary.

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John R. McLernon, Chairman
A&W Revenue Royalties
Income Fund

FINANCIAL HIGHLIGHTS

(in thousands of dollars)

	For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Gross Sales reported by the 585 A&W Restaurants in the Royalty Pool	$ 384,286
Royalty income	$ 11,529
Net earnings for the period	$ 7,063

FINANCIAL ACHIEVEMENTS

From inception in February 2002 to year-end, the Fund made its projected distributions to unitholders of 9 cents per month.

A&W's same store sales performance outpaced the Canadian Quick Service Restaurant industry.

OPERATIONAL ACHIEVEMENTS

Restaurant re-imaging program underway with 75 restaurants re-imaged.

New menu boards designed and launched.

Successful promotion of Chubby Chicken Family Take Home Meals contributed to year's results.

Fund Chairman's Report to Unitholders

I am very pleased to present the first annual report of the A&W Revenue Royalties Income Fund, and to welcome and thank the many unitholders who placed their trust in us in 2002.

BUILDING TRUST

When we launched this Fund a little over a year ago, we set out to bring several innovative features to the concept of income trusts – each designed to build trust by ensuring we deliver on our forecast distributions.

TOP-LINE STRUCTURE

The A&W Revenue Royalties Income Fund was the first pure top-line income fund. As part of this structure, royalties are based solely on the top-line revenues of A&W restaurants. This means our unitholders are protected from cost and profitability challenges such as increases in labour, food, packaging, management costs, etc. since these costs are borne by the restaurant business itself.

In one of the most challenging years ever for the restaurant industry – one that saw significant profit issues at competitors like McDonald's and Burger King – the Fund remained right on track delivering forecast distributions to unitholders.

ROYALTY REVENUE REPLACEMENT

Another innovation of the Fund is to ensure investors are protected from the impact of store closures caused by events such as lease expiries. On January 5, 2003, A&W Food Services of Canada Inc. (Food Services) replaced revenues lost because of the closure of eight restaurants in 2002 with revenues from new restaurants opened during the year – all at no cost to the Fund.

CLOSELY ALIGNED INTERESTS

The Fund is also designed to ensure the interests of Food Services' management are aligned with the interests of the Fund – without requiring fees or incentives to maintain that interest. Food Services is the largest investor in the Fund (28% ownership position), yet its position is subordinate to that of unitholders. In the event of a shortfall in revenue royalties, unitholders receive distributions before Food Services receives its share. This feature of the Fund provides stability for unitholders in a challenging year, enabling the Fund to reimburse Food Services in a later year when economic performance improves.

STRENGTH OF THE UNDERLYING BUSINESS

While each of these innovative features provides protection for investors and helps to build trust, I believe the best insurance for unitholders rests in the strength and proven track record of the business that supports the Fund.

A&W Food Services has a long history of success in Canada, and a management team that has demonstrated its ability to perform in good years and in bad. Appropriately, Food Services was recognized with two significant awards in 2002. In October, it was named Restaurant Company of the Year by Foodservice and Hospitality Magazine, and in December it was honoured as one of the 50 Best Managed Companies in Canada by a blue chip panel of management experts.

I believe the following statement says even more about this Company, however: In the worst year for the Quick Service Restaurant industry since the GST was introduced in 1991, A&W outperformed its chief competitor, and generated revenues sufficient to fully cover the Fund's cash distributions to unitholders for the year. Jeff Mooney, Chairman and CEO of A&W Food Services will tell you more about these achievements in his letter to unitholders. We also provide a closer look at A&W's mission and strategy in this year's Operations Review. I encourage you to read these parts of our report to gain a better understanding of the strong underpinnings of this Fund.

Thank you for the trust you have placed in us through your investment. With our innovative income trust structure and the strengths of a strong and proven operating Company like A&W Food Services, we are confident of our ability to continue delivering distributions as promised through 2003.

John R. McLernon, Chairman
A&W Revenue Royalties Income Fund

A&W Food Services Report to Fund Unitholders

Dear Unitholder

The A&W Revenue Royalties Income Fund's distributions flow from the revenues of the restaurants of A&W Food Services of Canada Inc., a private Canadian company.

In his report to you, John McLernon wrote about how the Fund has been innovatively designed to build trust. In a like fashion, A&W Foods Services' business is built on trust, focusing specifically on earning the trust of everyone we connect with: the consumer, our franchise operators, our suppliers and all of our teammates who work within A&W.

I want to touch briefly on the three powerful pillars that help us build and sustain this trust:

1) Strategy & Brand,
2) Climate, and
3) Management.

STRATEGY & BRAND

A&W is a strategy-driven Company. Everything we do, from how we design our restaurants, to the new products we choose to serve, to what goes on the tray liners in our restaurants is directly tied to our strategy. Each member of our management team has specific, measurable objectives integrated with our key strategic objectives. And today, we have the most powerful strategy in our history.

Our mission is: "To become the number one choice of the baby boomer generation." A&W is unique among all our competitors in terms of the powerful links we have with baby boomers, because A&W was the only national hamburger fast food chain during the formative years of this generation. As you will read in the following Operations Review, our strategy is helping bring this large and influential generation back to A&W, to our food, and to an experience they know and trust.

Our famous brands are a great source of trust. Today's A&W Root Beer in a frosted mug is the same great taste that it was 47 years ago when the boomers first tasted it. The A&W Burger Family – Teen, Papa, Mama and Baby are more popular than ever. And we recently brought back our Chubby Chicken, first made famous in the 60's. Boomers know these brands, and trust our ability to deliver them exactly the way they like them. In independent studies, A&W's products consistently rank #1 for "most flavourful food" and #1 for "best tasting burgers."

CLIMATE

Trust also plays a big role internally at A&W, with a process that we call "Climate Goals" contributing greatly to our low staff turnover rate and our consistent delivery of great food and service.

Climate Goals are a set of goals that describe how each of us, whether corporate employee or franchise operator, will behave with one another as we drive toward our mission. We have included a copy of the A&W Climate Goals on the inside front cover of this report. I encourage you to read them because they are fundamental to the success of our Company. Each and every word in the Climate Goals

was the subject of intense debate. To us, they are not mere words, but deep commitments we have made and to which we hold one another accountable.

We're human, so we don't always live up to our Climate Goals, but we give each other very direct feedback when we fall short, and we strive to help each other learn and improve – and constantly do our best for each other and for our customers.

MANAGEMENT

The third pillar that helps us build and sustain trust is our management team. Keeping a Company true to its strategy and living up to its Climate Goals requires experienced, proven management. If the leadership of an organization is constantly turning over, or if there is a new CEO every couple of years, it becomes extremely difficult to develop consistency and trust in a business.

This is my 30th year at A&W. Axel Rehkatsch, our CFO, is entering his 28th year, and Steve MacIntyre, the head of our strategic drive in Ontario, has also been involved in the A&W business for 28 years. Just as importantly, especially for investors with long-term horizons, the next generation of leadership at A&W is also in place, and they too bring significant experience in our business. Paul Hollands, President and Chief Operating Officer has been with A&W 22 years; Graham Cooke, Vice-President Restaurant Development, also 22 years; and the other Vice-Presidents and Directors on the team average over 15 years at A&W, including experience in three different functions. Yet the average age of these individuals is just 43 years old. No company in our industry can match the experience, commitment and proven track record of this youthful and energetic team of leaders.

We are deeply honoured you have trusted your hard-earned investment to a Fund which is based on our business. We know, as an experienced leadership team, that strategically focusing the organization on the baby boomers, building our famous brands, and living up to our Climate Goals are the keys to building trust with everyone linked to our business, and very specifically with you, the A&W unitholder.

We look forward to continuing to reward your trust in us in the year ahead.

Jefferson Mooney, Chairman and CEO
A&W Food Services of Canada Inc.

Winning the Boomer

"Cruising the Dub" It's a phrase that triggers powerful memories for Canada's largest generation: the baby boomers. Born between 1947 and 1966, with the peak in 1961, the nine million strong baby boomer generation grew up with A&W as their idea of fast food. Back then, A&W was fast food – other competitors did not arrive in Canada until the early 1970s. And what an experience A&W provided! Friends and families arrived at A&W's drive-in restaurants to visit, have fun and enjoy Teen Burgers, homemade onion rings and A&W Root Beer served in a frosted mug. The A&W experience was rich with great food and good times.

Now, over three decades later, baby boomers are returning in droves to A&W – in part because A&W still offers the same great food, and in part because of the success of a well defined and executed strategy that's helping bring them back.

A New Mission

A&W Food Services of Canada Inc. (Food Services) renewed its focus on the baby boomers in 1999 as part of a corporate strategy review exercise. According to Jeff Mooney, Chairman and CEO of Food Services, *"When we looked at Canada's demographic trend, we saw that over the next 10 to 15 years, baby boomers' families were going to be growing up and leaving home."*

While this trend might prove threatening for fast food competitors that had bet a "four year old screaming for a toy" would win out over an adult who wanted a real burger, Food Services recognized it held

significant potential for A&W. Over the years, A&W had never veered from its recipe of providing full-flavoured food which appeals to adult tastes. In fact, in study after study, A&W's products consistently ranked first for "most flavourful food" and for "best tasting burgers."

Soon the boomers – whose lives were as busy and time pressed as ever – would be approaching a stage of life when they would once again be making their own restaurant decisions. With its powerful ties to the boomers, Food Services recognized it was uniquely positioned to capitalize on the demographic trend. The Company established a new mission: *"To be the number one choice of the baby boomer generation"* and set about defining and executing a strategy to realize this mission.

Returning Old Favourites to the Menu

Because the menu is at the heart of quick service restaurants, one of Food Services' first initiatives was to restore tried and true favourites to A&W's menu. In 2000, the "Burger Family" – Papa, Mama, Teen and Baby burgers – were brought back, and reclaimed their position as some of the industry's best-recognized burger brands. A year later, Chubby Chicken – A&W's original bone-in chicken product – also made a comeback and was packaged and successfully promoted in 2002 as part of the Chubby Chicken Family Take Home Meal.

New Nostalgic Look

To help tighten the link between A&W and the boomers, Food Services began reworking the design of its freestanding restaurants. With the help of some of Canada's top retail designers, a new look was developed for A&W, incorporating recognizable features and architectural details from the original drive-in restaurants. The concept carries right into the restaurant, with the use of nostalgic images helping to remind boomers of youthful good times at A&W drive-ins. Staff uniforms were also redesigned in keeping with the new look.

To date, 75 existing free-standing restaurants have been re-imaged with the new design and another 75 restaurants are scheduled to complete the re-imaging program in 2003. In several cases, franchisees have

volunteered to re-image ahead of schedule because the results of the program have been so strong. Originally expected to lift sales by about 5%, the re-imaged stores are seeing sales increases averaging between 6-to-8%. Says Jeff Mooney, "The more you can make the experience exceed the customer's expectation, the greater the response you get."

Taking it to the Streets

At the time the boomer strategy was launched, A&W restaurants were well established in Western Canada and the chain dominated the shopping mall segment right across the country. However, its presence on the street and in Eastern Canada needed to be bolstered.

According to Paul Hollands, A&W Food Services' President and Chief Operating Officer, the fast food business is above all about convenience. "*If we wanted to be the number one choice of the baby boomer, it was critical that we be more easily accessible to baby boomers all across Canada.*"

Food Services focused on opening more freestanding restaurants, and increasing

the number of A&W's locations in Eastern Canada. During 2002, Food Services opened a total of 26 new A&W locations: six in Ontario, four in Quebec, two in Atlantic Canada, and 14 in Western Canada.

Of the new locations opened in 2002, 23 were freestanding restaurants which feature indoor seating and drive-thru windows. Expansion plans will continue to roll out in 2003.

More Effective Menu Boards

Next, Food Services turned its attention to menu boards. According to Edgar Hahn, Food Services' Marketing Manager for Brand Merchandising, menu boards are the "silent salesperson" – the most important tool for communicating product offerings in the Quick Service Restaurant (QSR) segment. During 2002, Food Services redesigned its menu boards to better feature signature branded products like the Burger Family and Chubby Chicken, and to more effectively promote combination meals, resulting in an increase of 2.5% in the average sale per customer. The overall look of the new boards also ties more closely to the look of the re-imaged restaurants.

By the end of 2002, 175 restaurants had new menu boards in place. All remaining A&W outlets will be outfitted with the new menu boards by the end of 2003.

The Next Steps

With key strategic initiatives like store design, menu and menu boards, and an expanded presence all clicking into place, the timing is now right for Food Services to begin communicating its positioning more aggressively to baby boomers. During 2002, creative work began on a new television advertising campaign scheduled to launch in March 2003. Themed, "It's all in the details," the new campaign features a series of ads that reignite boomer memories about A&W. The ads reinforce details about food and service that are still the same today – for example, serving root beer in a frosted mug, making onion rings fresh each day and serving hamburgers in foil pouches to help keep them warm. Following on a year of primarily tactical advertising, the new campaign is expected to give the baby boomer strategy a new lift, helping drive boomer visits to A&W restaurants.

It is the logical next step in a well-honed strategy that has been coming together smoothly for over two years, and is now delivering results. In 2002, a year considered one of the toughest on record for the QSR industry, A&W significantly outperformed its chief competitor. Perhaps more importantly, it is a strategy that will continue to sustain A&W's performance long into the future. As Jeff Mooney points out, the aging of the boomer families is a

trend that's really just getting started. "With every passing year, there's going to be more and more of those nine million baby boomers able to make their own choices about where to stop for a burger. We have every intention of ensuring A&W is their number one choice."

Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of A&W Revenue Royalties Income Fund (the "Fund"). It should be read in conjunction with the audited Consolidated Financial Statements of the Fund which are on pages 15 to 22. Since this is the first year of operations of the Fund, comparisons of operations to prior periods are not available.

The annual report of the Fund, including the enclosed annual review of A&W Food Services of Canada Inc. ("Food Services") and this Management Discussion and Analysis contain forward-looking statements based on assumptions that management considered reasonable at the time they were prepared. These forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the risk factors described on pages 12 and 13.

INCEPTION OF THE FUND

Inception of the Fund began with the issue and commencement of trading of Fund units on the Toronto Stock Exchange (TSX) on February 15, 2002 (TSX symbol AW.UN).

The Fund was created as a limited purpose trust to invest in securities of A&W Trade Marks Inc. (the "Company"). The Company acquired the A&W trade-marks from Food Services which were then licenced to Food Services for use in its hamburger quick service restaurant business in return for payment of a royalty of 3% of sales of A&W restaurants in Canada. At the inception of the Fund, there were 585 A&W restaurants across Canada for which gross sales were calculated for the purpose of determining the royalty. (See "Subsequent Events" on page 13 for a discussion of the increase in number of restaurants in the Royalty Pool which occurred in January 2003.)

Since the Fund is based on the gross sales of A&W restaurants, its expenses are limited to general and administrative expenses, interest on long-term debt, amortization of deferred financing fees, taxes and Class A share dividends.

At the Fund's inception, Food Services owned 25% of the units of the Fund on a fully diluted basis. In January 2003, Food Services' ownership interest in the Fund increased to 28%. (See "Subsequent Events" on page 13).
So long as Food Services holds an indirect interest in the Fund, distributions by the Fund to unitholders in the amount of approximately 9 cents per month are made before an equivalent amount is paid to Food Services.

From inception in February 2002 to year end, the Fund made its projected distributions to unitholders of 9 cents per unit per month.

Summary of Operating Results

(in thousands of dollars except per unit amounts)

		For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Gross sales reported by the 585 A&W outlets in the Royalty Pool	$	384,286
Royalty income	$	11,529
Class A share dividends		2,620
Net earnings for the period		7,063
Basic and diluted earnings per Unit	$	0.847

GROSS SALES REPORTED BY A&W OUTLETS

Gross Sales from the 585 restaurants in the Royalty Pool during the period February 15 to December 31, 2002 were $384,286,000.

Same store sales for the restaurants in the Royalty Pool declined by 1.4% from 2001. While this decline was disappointing, it was a better result than that realized by others in the industry (QSR).

The following chart shows the changes in same store sales by A&W Restaurants in 2002 versus 2001 compared to those of the industry (QSR) and its competitors in the same periods.

Changes in Same Store Sales 2002 compared to 2001

A&W	-1.4%
Major Competitor	-2.5% [1]
Canadian QSR Industry	-5.1% [2]

1 As reported by the competitor in print media.

2 Based on overall sales decline of 0.8% as reported by Stats Can, and an estimated growth in new restaurants of 4.3%

Sales results across the total Canadian foodservice market were the poorest year-over-year since 1991 when the GST was first applied to restaurant meals. Management of Food Services believes that this decline was primarily attributable to lower expenditures by Canadians on consumables such as foodservice, versus expenditures on capital items such as housing, automobiles, etc. which were driven by record low interest rates.

Despite one of the worst years in Canadian restaurant history, A&W outperformed the overall QSR industry in 2002 – evidence that its strategy of focusing on the "baby boomers" is working. Key strategic initiatives aimed at building same store sales during the year included a focus on establishing Chubby Chicken as a take home meal alternative for the family. Chubby Chicken was reintroduced to the A&W menu nationally in 2001 and was the focus of a national advertising campaign in 2002.

In addition, a major program to re-image A&W's freestanding (on street) restaurants was undertaken in 2002. Restaurants are being re-imaged in colours and with design features specifically focused on evoking the rich memories that the boomers have of A&W. Seventy-five restaurants were re-imaged in 2002.

Expenses and Taxes

(in thousands of dollars)		For the period from February 15, 2002 (commencement of operations) to December 31, 2002
General and Administrative	$	365
Interest on Term Loan	$	500
Amortization of deferred financing fees		120
Taxes		861
Class A share dividends	$	2,620
	$	4,466

Expenses of the Fund are limited to general and administrative expenses for the administration of the Fund itself, such as printing, postage, legal and

accounting, interest expenses on the Fund's term loan, amortization of deferred financing fees associated with the creation of the Fund and Class A share dividends.

Taxes include future income taxes described in note 7(b) on page 21, and the large corporations capital tax of $250,000. The Government of Canada recently announced that the large corporations capital tax is to be phased out between 2004 and 2008, and limited to capital in excess of $50 million in 2004. This change will reduce capital taxes payable by the Fund in the future.

The dividends on the Class A shares are treated for accounting purposes as interest expense and, as such, are deducted in arriving at Net Earnings.

Distributions to Unitholders

(in thousands of dollars except per unit amounts)

		For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Net earnings for the period		$ 7,063
Add		
Amortization of deferred financing fees		120
Future income taxes		611
Class A share dividends		2,620
Distributable cash		$ 10,414
Distributable cash available for Trust Units		$ 7,860
Distributable cash available for dividends		2,554
		$ 10,414
Dividends accrued and unpaid on Class A shares		$ 338
	Per Trust Unit	
Distributable cash (8,340,000 Units)	$ 0.942	$ 7,860
Distributions declared and paid (8,340,000 Units)	0.848	7,075
Distributions accrued (8,340,000 Units)	0.090	751

During 2002, Class A share dividends accrued and payable to Food Services amounted to $2,620,000 and dividends of $2,282,000 were paid. Distributable cash available to pay Class A share dividends totalled $2,554,000. At the end of 2002, Class A share dividends accrued but not paid to Food Services amounted to $338,000. On January 15, 2003 the Company declared a dividend payable to Food Services of $253,000 payable on January 31, 2003. Distributable cash was available to declare a further Class A share dividend of $19,000.

TAX TREATMENT OF DISTRIBUTIONS

The distributions paid and payable in the year are taxable to unitholders as other investment income.

SEASONALITY OF CASH AVAILABLE FOR DISTRIBUTION

Sales in the QSR industry fluctuate seasonally in freestanding restaurants due to the impact of weather. In shopping centers, where A&W has approximately 250 of its restaurants, seasonality (e.g. Christmas, back to school) impacts sales as well. Distributions to unitholders are made on a monthly basis and are levelled out in order to provide unitholders with uniform monthly distributions.

RISKS AND UNCERTAINTIES

The performance of the Fund is dependent upon the royalty the Company receives from Food Services. The amount of the royalty is dependent upon the gross sales of the A&W restaurants in the Royalty Pool. Sales are subject to a number of factors that affect the restaurant industry generally and the quick service segment of this

A&W Food Services of Canada Inc.

Consolidated Financial Statements

For the year ended December 29, 2002

Provided as a supplement to the financial statements of A&W Revenue Royalties Income Fund

Management's Discussion and Analysis

The following is a discussion of the consolidated financial condition and results of operations of A&W Food Services of Canada Inc. ("Food Services"). It should be read in conjunction with the audited Consolidated Financial Statements of Food Services which are on pages 6 to 13.

Financial Highlights

(in thousands of dollars)

For the year ended	December 29, 2002	December 30, 2001
System Sales	$ 446,829	$ 432,852
Revenue	47,763	47,262
Operating Costs and Expenses	32,282	35,778
Operating Contribution	15,481	11,484
Royalty Expense	11,452	—
Operating Income	4,029	11,484
Net Earnings	18,039	4,177

Overview

A&W Food Services of Canada Inc. is the franchisor of the A&W restaurant chain in Canada and derives revenues from franchise fees, sales of goods and services to franchised operators, initial and regrant franchise fees, lease guarantee fees, and other fees. Food Services also generates sales in corporate owned restaurants and owns shares of A&W Trade Marks Inc. and receives dividend income from this source. During fiscal 2002, Food Services held shares which were the equivalent of 25% of the units of the A&W Revenue Royalties Income Fund (the "Fund"). On January 5, 2003, Food Services' ownership position increased to 28% as a result of the annual adjustment to the royalties payable by Food Services to A&W Trade Marks Inc. (See note 16 to Food Services statements).

A subsidiary of Food Services also receives revenue from the sale of flavour concentrate to a licensed bottler that produces and distributes A&W Root Beer for sale in retail grocery stores.

Food Services licenses the A&W trade-marks from the Fund and, in return, pays a licence fee of 3% of the gross sales of the A&W restaurants. During 2002, this royalty was based on the 585 A&W restaurants in existence on November 4, 2001. The number of restaurants in the Royalty Pool is adjusted in January of each year to reflect gross sales from new restaurants opened during the year, net of the sales of any A&W restaurants that have closed. On January 5, 2003, the pool of restaurants for which royalties are payable to the Fund increased to 604 as a result of this adjustment. (See note 16 to Food Services statements.)

Food Services' operating costs and expenses include salaries and general and administrative costs associated with providing services to the franchised A&W restaurants, and in establishing new A&W restaurants. Also included is the cost of materials and supplies and equipment sold either directly to franchisees or to distributors that service the restaurants. In addition, operating costs include the expenses and costs of the nine corporate restaurants operated by Food Services.

2002 Operating Results

Gross sales for all A&W restaurants in Canada in 2002 totalled $446,829,000, up 3.2% or $13,977,000 from the same period in 2001. This compares very favourably with the Quick Service Restaurant (QSR) industry in Canada and A&W's major competitor in Canada.

2002 System Sales Growth (decline)

A&W	3.2%
Major Competitor	2.0% [1]
QSR	(0.8)% [2]

[1] Source: - Competitors' reports to media
[2] Source: - Statistics Canada

During this same period, same store sales at A&W restaurants declined by 1.4% as a result of the softest year in the Canadian restaurant market in over 10 years. However, A&W's same store results were better than those of its major competition and the overall QSR industry.

A&W believes its superior sales performance relative to competitors is the result of its successful strategy of positioning A&W "to be the number one choice of the baby boomer generation."

New Restaurant Development and Restaurant Closures

New Restaurant Growth in 2002

Location	Freestanding	Malls
Western Canada	12	2
Ontario/Quebec/Atlantic	11	1
	23	3

A&W opened 26 new franchised restaurants in 2002, and closed 10 restaurants for a net gain of 16 new restaurants. (Note that the number of restaurant openings and closings may vary between Food Services and the Fund, as the calendar period for which they are calculated varies slightly.)

Revenue

Revenues increased by $501,000 to $47,763,000 in 2002 from $47,262,000 in 2001. This modest increase reflects an increase in revenues derived from dividends from Food Services' 25% interest held in the Fund, offset by a year-over-year reduction in equipment sales to restaurants (equipment sales were unusually high in 2001 because of the introduction of Chubby Chicken) and by a reduction in revenue from corporate-owned restaurants due to the closure of an underperforming corporate restaurant.

Operating Costs and Expenses

Operating expenses decreased by $3,496,000 to $32,282,000 in 2002 from $35,778,000 in 2001 due primarily to the lower costs associated with lower equipment sales.

Operating Contribution

Operating contribution increased by $3,997,000 to $15,481,000 in 2002 from $11,484,000 in 2001, reflecting the reduced influence of low margin equipment sales on the year's results.

Royalty Expense

2002 was the first year in which Food Services paid royalties to the Fund. Total royalties paid for the year were $11,452,000.

Operating Income

Operating income fell by $7,455,000 to $4,029,000 in 2002 from $11,484,000 in 2001 as a result of the new royalty paid to the Fund net of dividends received and improved income from operations.

Net Earnings

Earnings increased by $13,862,000 to $18,039,000 in 2002 from $4,177,000 in 2001. This increase reflects the sale of the A&W trade-marks to the Fund. The transaction gave rise to unusual, non-recurring expenses of $1,958,000, a reduction in interest expense of $1,918,000, a reduction in amortization of $2,016,000, a gain recognition of $2,647,000, a tax liability of $8,433,000, and a recovery of future income taxes of $24,577,000.

Liquidity and Capital Resources

During the year, Food Services received $84,876,000 in cash from the sale of A&W trade-marks to A&W Trade Marks Inc. and the creation of the A&W Revenue Royalties Income Fund. The cash was substantially used to:

(in thousands of dollars)	
Pay current income taxes	$ 7,682
Pay all existing long-term debt	36,500
Settle all hedging transactions relating to debt	1,144
Dividends	39,000
Total	$ 84,326

The dividend payment of $39,000,000 amounted to the after-tax proceeds on the sale of the A&W trade-marks after payment of all outstanding debt, income taxes and transaction-related obligations.

As at December 29,2002, the company had a shareholders' deficiency of $385,000. The deficit arose because the dividends paid to the shareholders ($39,000,000) are required to be charged to retained earnings, whereas the gain on the sale of the trade-marks ($29,644,000 as at December 29, 2002) is required to be deferred and amortized over the term of the licence. Therefore over the term of the licence, the deficit will be eliminated giving rise to net equity of $25,921,000 as follows:

(in thousands of dollars)	
Deferred accounting gain on sale of A&W trade-marks	$ 29,644
Less related tax recovery	(3,338)
Capital stock	10,500
Retained earnings	(10,885)
Net equity, including deferred gain	$ 25,921

The company has current assets of $18,348,000 and current liabilities of $16,231,000, leaving a positive working capital position at the end of the year of $2,117,000. The company has no capital requirements as future restaurant growth will be funded by franchisees.

Outlook

The Canadian economy is generally forecast to be weaker in 2003 than it was in 2002. At the time of writing, a war in Iraq is creating uncertainty about how the global and North American economies will respond.

Despite this economic uncertainty, Food Services projects it will continue to outperform the industry in 2003 because of its strategic focus on baby boomers and because of several new initiatives related to this strategy, including:

- the launch of a new advertising campaign designed to strengthen A&W's bond with boomer consumers
- roll out of new menu boards across all A&W restaurants. The menu boards are designed to increase the average amount spent per customer transaction by 2% or higher
- continuation of the A&W restaurant re-imaging program with an aim of re-imaging 75 restaurants in 2003
- continued focused marketing of Chubby Chicken products

A&W also intends to increase its level of new restaurant openings beyond the 26 achieved in 2002, with a greater number of openings planned for Ontario, Quebec and Atlantic Canada. Plans are to open 30 to 34 new A&W restaurants in 2003 provided appropriate locations and franchisees can be secured. A&W also expects to close eight to 10 A&W restaurants in 2003.

Management's Responsibility

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting.

The company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the company.

Jefferson Mooney
Chairman and Chief Executive Officer

Axel F. Rehkatsch
Chief Financial Officer

Auditors' Report

To the Directors of
A&W Food Services of Canada Inc.

We have audited the consolidated balance sheet of A&W Food Services of Canada Inc. as at December 29, 2002 and the consolidated statements of earnings and deficit and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 29, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia

January 17, 2003

CONSOLIDATED BALANCE SHEET

(in thousands of dollars)

	December 29, 2002	December 30, 2001
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,054	$ 4,130
Accounts receivable	5,948	6,325
Inventories	846	586
Dividends receivable (note 13)	258	—
Prepaid expenses and deferred charges	35	33
Future income taxes (note 10(c))	207	276
	18,348	11,350
Investment in A&W Trade Marks Inc. (note 3)	27,800	—
Future income taxes (note 10(c))	2,776	—
Property, plant and equipment (note 4)	1,453	1,550
Notes receivable (note 5)	373	—
Intangible assets (notes 2 and 6)	—	80,748
Deferred financing fees (note 7)	—	1,044
	$ 50,750	$ 94,692
LIABILITIES		
Current liabilities		
Accounts payable	$ 4,197	$ 4,107
Accrued liabilities	3,973	4,141
Accrued royalties payable (note 13)	2,080	—
Income taxes payable	5,138	1,857
Deposits on franchise and equipment sales	843	709
Current portion of long-term debt (note 8)	—	2,775
	16,231	13,589
Long-term debt (note 8)	—	33,725
Deferred gain (note 2)	29,644	—
Long-term liabilities (note 9)	5,180	4,884
Future income taxes (note 10 (c))	—	21,708
Non-controlling interest	80	210
	51,135	74,116
SHAREHOLDERS' DEFICIENCY		
Capital stock (note 11)	10,500	10,500
(Deficit) retained earnings	(10,885)	10,076
	(385)	20,576
	$ 50,750	$ 94,692

Commitments and contingencies (note 12)

Subsequent event (note 16)

Approved by the Board of Directors:

Director Director

CONSOLIDATED STATEMENT OF EARNINGS AND DEFICIT

(in thousands of dollars)

For the year ended	December 29, 2002	December 30, 2001
Revenue		
Franchising	$ 39,153	$ 40,510
Corporate restaurants	6,328	6,752
Dividend income (note 13)	2,282	—
	47,763	47,262
Operating costs and expenses	32,282	35,778
Royalty expense (note 13)	11,452	—
	43,734	35,778
Earnings before the following	4,029	11,484
Interest (note 15)	1,239	3,157
Amortization (note 15)	1,883	3,899
Non-recurring items (note 15)	1,958	—
Amortization of deferred gain (note 2)	(2,647)	—
Earnings before income taxes and non-controlling interest	1,596	4,428
Recovery of (provision for) income taxes (note 10(b))	16,733	(41)
Earnings for the year before non-controlling interest	18,329	4,387
Non-controlling interest	290	210
Net earnings for the year	18,039	4,177
Retained earnings – Beginning of year	10,076	5,899
Dividends paid	(39,000)	—
(Deficit) retained earnings - End of year	$ (10,885)	$ 10,076

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands of dollars)

For the year ended	December 29, 2002	December 30, 2001
Cash flows from operating activities		
Net earnings for the year	$ 18,039	$ 4,177
Items not affecting cash		
Amortization	1,883	3,899
Decrease in future income taxes – non-current	(24,484)	(2,916)
(Gain) loss on disposal of property, plant and equipment	(4)	9
Amortization of deferred gain	(2,647)	—
Increase in long-term liabilities	296	353
Increase in notes receivable	(373)	—
Non-controlling interest's share of earnings	290	210
	(7,000)	5,732
Net change in non-cash working capital	5,343	972
	(1,657)	6,704
Cash flows from investing activities		
Purchase of property, plant and equipment	(383)	(295)
Proceeds from disposal of property, plant and equipment	8	1
Proceeds from sale of intangible assets	84,876	—
	84,501	(294)
Cash flows from financing activities		
Repayment of long-term debt	(36,500)	(5,000)
Payment of dividends	(39,000)	—
Dividend to non-controlling interest	(420)	—
	(75,920)	(5,000)
Increase in cash and cash equivalents	6,924	1,410
Cash and cash equivalents - Beginning of year	4,130	2,720
Cash and cash equivalents - End of year	$ 11,054	$ 4,130
Cash and cash equivalents consist of:		
(Bank indebtedness) cash	(600)	1,427
Short-term investments	11,654	2,703
	$ 11,054	$ 4,130
Supplementary cash flow information (note 15)		
Net interest paid	$ (1,039)	$ (2,621)
Net income taxes paid	$ (4,413)	$ (2,147)

8. Long-term debt

	2002	2001
Intercompany loans	$ —	$ 30,125
Term loan facility	—	875
Note payable	—	5,500
	—	36,500
Less: Current portion	—	2,775
	$ —	$ 33,725

During the year, the company repaid its long-term debt out of the proceeds from the sale of its intangible assets (note 2).

9. Long-term liabilities

	2002	2001
Long-term pension liability (note 14)	$ 4,698	$ 4,268
Long-term rent subsidies	534	895
Long-term employee benefits (note 14)	192	194
	5,424	5,357
Less: Current portion included in accrued liabilities	244	473
	$ 5,180	$ 4,884

10. Income taxes

a) Recovery of (provision for) income taxes included in the consolidated statement of earnings is as follows:

	2002	2001
Current income taxes	$ (7,682)	$ (2,890)
Future income taxes		
Current	(69)	(67)
Non-current	24,484	2,916
	$ 16,733	$ (41)

b) The recovery of (provision for) income taxes shown in the consolidated statement of earnings differs from the amounts obtained by applying statutory tax rates to the earnings before income taxes for the following reasons:

	2002	2001
Statutory combined federal and provincial income tax rates	35.5%	43.8%
Provision for income taxes based on statutory income tax rates	$ (567)	$ (1,937)
Non-deductible items	(83)	(115)
Large corporations tax	—	(5)
Non-taxable portion of capital gains	298	10
Non-taxable dividends	514	—
Manufacturing and processing deduction	71	46
Rate change on future income taxes	356	1,960
Tax recovery on sale of trade-marks	16,144	—
Recovery of (provision for) income taxes	$ 16,733	$ (41)

c) Future income taxes comprise the following:

	2002	2001
Current		
Current tax reserves	$ 207	$ 276
Long-term assets		
Intangible assets	$ 909	$ —
Deferred financing fees	—	23
Long-term liabilities	1,747	1,671
Deferred gain	3,338	—
	5,994	1,694
Long-term liabilities		
Property, plant and equipment	(87)	(180)
Intangible assets	—	(23,222)
Class A shares	(3,131)	—
	(3,218)	(23,402)
Net long-term future income tax asset (liability)	$ 2,776	$ (21,708)

11. Capital stock

Authorized
Unlimited number of common shares
Unlimited number of preferred shares

Issued

	2002	2001
4,781,250 common shares	$ 10,500	$ 10,500

12. Commitments and contingencies

Operating leases

The company has base rental obligations under operating leases for premises, equipment and automobiles. Certain of the premises leases require additional payments contingent on sales volume. The company generally arranges premises leases and enters into agreements whereby the company licences the premises to the franchisee, for which the company receives a premises licence fee. Under the terms of the agreements, the franchisee assumes all rights and obligations under the lease. Accordingly, the company records net lease expense in its consolidated statement of earnings.

The annual rental payments, excluding contingent rentals, are as follows:

	Lease obligations	Subleases	Net lease liability
Year ending December 31			
2003	$ 14,551	$ 12,938	$ 1,613
2004	14,080	12,637	1,443
2005	13,102	11,712	1,390
2006	12,720	11,457	1,263
2007	11,992	10,806	1,186
Balance of commitments	71,317	65,831	5,486
	$ 137,762	$ 125,381	$ 12,381

12. Commitments and contingencies (continued)

Purchase obligations and lease and mortgage guarantees

The company has lease and mortgage guarantees of $338,000 and purchase obligations for supply to franchisees for food supplies, packaging and equipment of $16,828,000.

National Advertising Fund

The company maintains an advertising fund that is supported by prescribed contributions from corporate and franchise restaurants. At December 29, 2002, the fund had a surplus balance of $93,000 (December 30, 2001 - deficit of $32,000).

Contingencies

In the normal course of operations, there are claims against the company. Specifically, there is one claim against the company for $480,000 for a dispute with a former franchisee. The company has counter-claimed for $370,000 alleging breach of contract. Management has assessed the company's likely liability for all claims outstanding and has made provision for these claims in the financial statements. The actual liability could differ from these estimates.

13. Related party transactions and balances

Royalty expense

Pursuant to the Licence and Royalty Agreement (note 2), system sales from the royalty pool for the year amounted to $381,733,000 resulting in a royalty expense for the year of $11,452,000. At December 29, 2002, an accrued royalty expense of $2,080,000 is due to Trade Marks.

Dividend income

During 2002, dividend income of $2,282,000 was earned from Trade Marks, of which $258,000 is receivable at December 29, 2002.

14. Employee benefits

The company has a defined contribution pension plan. In addition, the company has entered into agreements with certain senior officers pursuant to which the company has an unfunded liability to pay each of them a supplementary retirement benefit. The accrued benefit obligation and related expense are actuarially determined using a current settlement discount rate. The unfunded liability of the company under these agreements as at December 29, 2002, assuming retirement of each officer at normal retirement age, was $4,698,000 (December 30, 2001 - $4,268,000) and is included in long-term liabilities (note 9).

Pension expense for the period was $519,000 (December 30, 2001 – $517,000).

The long-term employee benefits comprise medical, dental and pension benefits payable to former employees who are on long-term disability.

15. Supplementary earnings and cash flow information

	2002	2001
Interest expense		
Interest on long-term debt	$ 206	$ 3,099
Interest income	(385)	(149)
Other	274	207
Settlement of debt hedging transactions	1,144	—
	$ 1,239	$ 3,157
Amortization		
Amortization of intangible assets	$ 363	$ 2,965
Amortization of property, plant and equipment	476	615
Write-off of deferred financing fees	1,044	319
	$ 1,883	$ 3,899
Non-recurring items		
Bonus paid under phantom share plan	$ 1,517	$ —
Other	441	—
	$ 1,958	$ —
Non-cash investing activities		
Investment in A&W Trade Marks Inc.	$ 27,800	$ —

16. Subsequent event

Effective January 5, 2003, the company added 27 restaurants to the pool of restaurants contributing to the royalty payable to Trade Marks, of which 8 restaurants replaced permanently closed restaurants during 2002 which were originally included in the pool. The company received $5,505,000, through the issuance of 487,624 Class B shares of Trade Marks, as consideration for the net additional 19 restaurants added to the pool. The Class B shares comprise a portion of the $40 million unpaid consideration on the sale of the A&W trade-marks (note 2) and will be recorded as an additional investment in Trade Marks with a corresponding increase in the deferred gain ($5,505,000). 20% of the Class B shares are held in escrow until the actual performance of the restaurants during 2003 is known.

Management of A&W Food Services

Jefferson Mooney

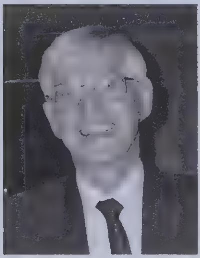
Chairman and Chief Executive Officer

Jeff Mooney joined A&W Food Services in 1973, became President and Chief Executive Officer in 1991 and Chairman in 1994. He holds a Bachelor of Arts degree from the University of Saskatchewan and is an alumnus of the Harvard University School of Business. In addition, Jeff is the Past-Chairman of the British Columbia Business Council, a director of The Cadillac Fairview Corporation Limited and a director of Finning International Inc.

Paul F.B. Hollands

President and Chief Operating Officer

Paul Hollands joined A&W Food Services in 1981, became Executive Vice President and Chief Operating Officer in 1995 and President in 2002. He holds a Bachelor of Commerce degree from the University of British Columbia, is past chairman of the Canadian Restaurant and Foodservices Association, a member of the Canadian Committee of the International Council of Shopping Centres, and a recipient of the first class of Canada's national Top 40 Under 40 leadership award.



Axel F. Rehkatsch

Senior Vice President and Chief Financial Officer

Axel Rehkatsch joined A&W Food Services in 1975 and became Senior Vice President and Chief Financial Officer in 1995. He holds a Bachelor of Commerce degree from the University of British Columbia and a Chartered Accountant designation. Axel is also a graduate of the Advanced Program of Hospitality Management at the University of Guelph and of the Extended Education Program of the Harvard University School of Business.

J. Graham Cooke

Vice President, Development

Graham Cooke joined A&W Food Services in 1981, became Director of Purchasing and Distribution in 1986, Vice President of Franchising in 1991, Vice President, Operations in 1997 and Vice President, Development in 2002. He holds a Masters of Business Administration degree from Queen's University. Graham is also past director of the Canadian Franchise Association and currently serves on its Pacific Region Advisory council.

Steve A. MacIntyre

Vice President, New Restaurant Development - Ontario

Steve MacIntyre joined A&W Food Services in 1993 and assumed responsibility for its real estate and restaurant development functions. Before joining A&W Food Services, Steve was president of a large family-style restaurant chain operating in British Columbia. He has extensive experience in the food service industry. Steve is a graduate of the Advanced Program of Hospitality Management at the University of Guelph and is currently a director of the B.C. Restaurant & Foodservices Association.

A&W Food Services
of Canada Inc.

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Printed in Canada

industry in particular. These include: the highly competitive nature of the industry, traffic patterns, demographic considerations and the type, number and proximity of competing quick service restaurants. In addition, factors such as the availability of experienced management and hourly employees may also adversely affect the gross sales of the quick service restaurant industry in general, and the gross sales by A&W restaurants in particular.

Food Services competes with other companies, including other well-capitalized franchisors with extensive financial, technological, marketing and personnel resources and high brand name recognition and awareness. There can be no assurance that Food Services will be able to respond successfully to various competitive factors affecting the franchise operations of Food Services in the quick service restaurant industry.

Any significant event that adversely affects consumption of hamburgers, fries and soft drinks (such as cost, changing tastes or health concerns) could adversely impact the gross sales of A&W restaurants and, consequently, the amount of the royalty payable to the Company.

The growth of the royalty is dependent upon the ability of Food Services to (i) maintain and grow the current system of franchises, (ii) execute its current strategy for growth, (iii) locate new retail sites in prime locations and (iv) obtain qualified operators to become A&W franchisees. Food Services faces competition for retail locations and franchisees from its competitors and from franchisors of other businesses. Food Services' inability to successfully obtain qualified franchisees could adversely affect its business development.

Food Services and A&W franchisees may be the subject of complaints or litigation from guests alleging food-related illnesses, injuries suffered on the premises or other food quality, health or operational concerns. Adverse publicity resulting from such allegations may materially affect the sales of A&W restaurants, regardless of whether such allegations are true or whether Food Services or an A&W franchisee is ultimately held liable.

EVENTS SUBSEQUENT TO YEAR-END

a) Change in Royalty Pool

Effective January 5, 2003, the number of A&W restaurants for which royalties are paid to the Fund was increased to include the revenues from 27 new restaurants less eight permanently closed restaurants. The Company paid Food Services $5,505,000, by issuance of 487,624 Class B shares, as initial consideration for the estimated royalty stream from the 19 net additional restaurants added to the Royalty Pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares will be held in escrow. The Class B shares have substantially the same terms as the Class A shares.

The issuance of the Class B shares comprise the first payment of the $40,000,000 unpaid consideration on the acquisition of the A&W trade-marks and will be recorded as an additional cost of the A&W trade-marks.

b) Declaration of distributions and dividends in respect of 2002

On January 6, 2003, the Trustees declared a distribution payable to unitholders of record on January 15, 2003 of 9 cents per unit ($750,600) and declared a dividend payable to Food Services of $253,000, both payable on January 31, 2003.

OUTLOOK

The Canadian economy is generally forecast to perform at levels below that of 2002. There is considerable uncertainty associated with the war in Iraq as this is being written, and the impact of this conflict on the global and North American economies.

However, Food Services' strategic focus on baby boomers should continue to result in superior performance versus its industry and therefore, despite the economic uncertainties reflected in general equity market malaise, distributions to unitholders from the Fund are expected to be maintained in 2003 at 9 cents per unit, per month.

In terms of strategic initiatives, in mid-March Food Services introduced a new advertising campaign designed to strengthen its bond with boomer consumers. Food Services has also begun the roll out of new menu boards throughout its restaurants. These menu boards are designed to increase the average amount spent per customer transaction by 2%.

Continued focused marketing of Chubby Chicken will also occur in 2003, and Food Services will continue its re-imaging program with an aim of re-imaging 75 restaurants in 2003.

MANAGEMENT'S STATEMENT OF RESPONSIBILITIES

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by PricewaterhouseCoopers LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Company.

Jefferson Mooney
Director

AUDITORS' REPORT

To the Unitholders of
A&W Revenue Royalties Income Fund

We have audited the consolidated balance sheet of **A&W Revenue Royalties Income Fund** (the Fund) as at December 31, 2002 and the consolidated statements of earnings, unitholders' equity and cash flows for the period from February 15, 2002 (commencement of operations) to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP
Chartered Accountants
Vancouver, British Columbia
January 28, 2003

Consolidated Balance Sheet

(in thousands of dollars)

	As at December 31, 2002
ASSETS	
Current assets	
Cash	$ 490
Accounts receivable (note 11)	1,266
Prepaid interest	25
	1,781
Intangible assets (note 4)	120,756
Deferred financing fees	292
	$ 122,829
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	$ 474
Corporate taxes payable	250
Distribution payable to Unitholders (note 3)	751
	1,475
Term loan (note 6)	10,000
Future income taxes (note 7)	6,864
A&W Trade Marks Inc. Class A shares (note 8)	28,138
	46,477
Unitholders' Equity	76,352
	$ 122,829

Subsequent events (note 12)

Approved by the Trustees

John R. McLernon   Conrad A. Pinette

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Unitholders' Equity

(in thousands of dollars)

	For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Balance – beginning of period	$ —
Issue of Trust Units (note 9)	77,115
Net earnings for the period	7,063
Distributions declared and accrued (note 3)	(7,826)
Balance – end of period	$ 76,352

Consolidated Statement of Earnings

(in thousands of dollars except per unit amounts)

	For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Gross sales reported by A&W outlets	$ 384,286
Royalty income (notes 4 and 11)	$ 11,529
Expenses	
General and administrative	365
Interest on term loan	500
Amortization of deferred financing fees	120
	985
Earnings before income taxes and Class A share dividends	10,544
Provision for income taxes	
Large corporations tax	250
Future income taxes	611
	861
Earnings before Class A share dividends	9,683
Class A share dividends (note 8)	2,620
Net earnings for the period	$ 7,063
Basic and diluted earnings per Trust Unit (8,340,000 Units)	$ 0.847

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(in thousands of dollars)

	For the period from February 15, 2002 (commencement of operations) to December 31, 2002
Cash flows from operating activities	
Net earnings for the period	$ 7,063
Items not affecting cash	
Amortization	120
Provision for future income taxes	611
Accrued Class A share dividends (note 8)	338
	8,132
Net changes in non-cash working capital	(567)
	7,565
Cash flows from investing activities	
Acquisition (note 4)	(84,876)
Cash flows from financing activities	
Issuance of Trust Units (note 9)	83,400
Cost of issuance (note 9)	(8,112)
Term loan (note 6)	10,000
Financing fees	(412)
Distributions paid to Unitholders (note 3)	(7,075)
	77,801
Increase in cash for the period	490
Cash - beginning of period	—
Cash – end of period	$ 490
Supplementary cash flow information	
Non-cash financing activities	
Issuance of A&W Trade Marks Inc. Class A shares	$ 27,800
Interest paid	$ 525
Class A share dividends paid	$ 2,282

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and nature of business

A&W Revenue Royalties Income Fund (the Fund) is a limited purpose trust established with an unlimited number of Trust Units (Units) under the laws of the Province of British Columbia pursuant to the Declaration of Trust on December 18, 2001. The Fund was established to invest in A&W Trade Marks Inc. (the Company), which owns the A&W trade-marks (A&W Marks) used in the A&W quick service restaurant business in Canada. Income tax obligations related to the distributions by the Fund are obligations of the Unitholders.

The business of the Company is the ownership of the A&W Marks and through the Licence and Royalty Agreement with A&W Food Services of Canada Inc. (Food Services) to exploit the use of the A&W Marks and the development of new A&W outlets by Food Services, and the collection of the royalty payable under the Licence and Royalty Agreement. Food Services is a leading franchisor of hamburger quick service restaurants in Canada.

2. Summary of significant accounting policies

Basis of financial statements

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial statements are from February 15, 2002, the date of the acquisition of the A&W Marks and the closing of the sale of the Units of the Fund, to December 31, 2002.

Principles of consolidation

The consolidated financial statements include the accounts of the Fund and its 75% owned subsidiary A&W Trade Marks Inc. (the Company). Food Services holds the 25% non-controlling interest in the Company.

Revenue recognition

Revenue comprises royalty income equal to three per cent of sales from specific A&W outlets in Canada (the royalty pool), and is recognized on an accrual basis.

Intangible assets

Intangible assets, which have an indefinite life, comprise the A&W Marks and are recorded at cost. Management reviews the carrying value of the intangible assets at least annually for impairment. Intangible assets are written down when declines in value are considered to be other than temporary based upon forecast future cash flows.

Deferred financing fees

Fees incurred in obtaining debt financing are deferred and are amortized on a straight-line basis over the term of the debt.

Future income taxes

Future income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantially enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Earnings per Unit

The earnings per Unit are based on the weighted average number of Units outstanding during the period. Diluted earnings per Unit are calculated to reflect the dilutive effect, if any, of Food Services exercising its right to exchange its Class A and common shares of the Company into Units of the Fund at the beginning of the period.

Distributions

The amount of cash to be distributed annually to Unitholders is determined with reference to distributable cash, which is calculated as net earnings adjusted for amortization, future income taxes, and dividends on Class A shares.

Distributions to Unitholders are intended to be made monthly in arrears based upon distributable cash less cash redemptions of Units, and subject to the Fund retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

Distributions to Food Services comprise cash dividends on the Class A shares of the Company.

2. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Financial instruments

The Fund's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, distribution payable to Unitholders, and term loan. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest or credit risks arising from these financial instruments. Management estimates that the fair values of these financial instruments approximate their carrying values, unless otherwise noted.

3. Distributions

Net earnings for the period	$ 7,063
Add	
Amortization of deferred financing fees	120
Future income taxes	611
Class A share dividends	2,620
Distributable cash	$ 10,414
Distributable cash available for Trust Units	$ 7,860
Distributable cash available for dividends	2,554
	$ 10,414

	Per Trust Unit	
Distributable cash (8,340,000 Units)	$ 0.942	$ 7,860
Distributions declared and paid (8,340,000 Units)	0.848	7,075
Distribution accrued (8,340,000 Units)	0.090	751

The Fund is taxed as a mutual fund trust for income tax purposes. Pursuant to the Declaration of Trust, all of the taxable income earned directly by the Fund in the period is distributable to Unitholders and such distributions are deductible for income tax purposes. This gives rise to an accrued distribution payable to Unitholders of $750,600 at December 31, 2002 (note 12(b)).

4. Acquisition

On February 15, 2002, the Company acquired the A&W Marks used in the A&W quick service restaurant business in Canada for $152,676,000, of which $84,876,000 was paid in cash, $27,800,000 was paid by the issuance of 2,779,975 Class A shares and 2,780,000 common shares of the Company, and the balance of the purchase price (the Balance) of $40,000,000 is due, without interest, on December 31, 2006.

Over the next five years, the Balance will be reduced by all amounts the Company is required to pay Food Services in respect of annual adjustments (the Determined Amounts) to royalties from new restaurants established. If the total Determined Amounts are less than the Balance, the obligation of the Fund to pay the remaining balance of the purchase price is extinguished. Accordingly, for accounting purposes, the Balance will not be recorded on acquisition but will be recognized in the periods such Determined Amounts become payable (note 12(a)).

Concurrently with the purchase of the A&W Marks, the Company granted Food Services a licence to use the A&W Marks in Canada for a term of 99 years, for which Food Services pays the Company a royalty of three per cent of the gross sales reported to Food Services by the A&W outlets included in the royalty pool.

The acquisition comprised:

A&W Marks	$ 120,756
Less: Future income taxes	(8,080)
	$ 112,676
Consideration:	
Cash	$ 84,876
Class A shares of the Company	27,800
Common shares of the Company (25% interest)	—
	$ 112,676

5. Operating bank line of credit

The Company has a demand operating facility of up to $2,000,000 to fund the Company's working capital requirements and for general corporate purposes. The facility bears interest at bank prime plus 0.5% and is repayable on demand. As at December 31, 2002, the full amount of the facility was available. The facility is collateralized as part of the term loan (note 6).

6. Term loan

The Company has a term loan in the amount of $10,000,000. The term loan is repayable on February 14, 2005 and bears interest at a fixed rate of 6.03% by an interest rate swap effective April 5, 2002 and maturing February 14, 2005. A general security agreement over the assets of the Company is provided as security.

7. Income taxes

a) The Fund is not taxable on any income that is distributed to Unitholders. The Company is taxable on its income at Canadian statutory rates.

The provision for income taxes shown in the consolidated statement of earnings differs from the amount obtained by applying statutory tax rates to the earnings before income taxes and dividends on Class A shares for the following reasons:

Statutory combined federal and provincial income tax rates on investment income	22.53%
Provision for income taxes based on statutory income tax rates	$ 2,373
Income distributed or accrued to Unitholders not subject to tax in the Fund	(1,762)
Large corporations tax	250
Provision for income taxes	$ 861

b) Future income taxes comprise the following:

Long-term assets	
Share issue costs	$ 1,439
Deferred financing fees	9
Non-capital losses	1,245
	2,693
Long-term liability	
Intangible assets	(9,557)
	$ (6,864)

At December 31, 2002, the Company has non-capital losses available to carry forward of approximately $5,500,000. These losses expire in 2009.

8. A&W Trade Marks Inc. Class A shares

The Class A shares are owned by Food Services and comprise:

A&W Trade Marks Inc. Class A shares – at cost	$ 27,800
Accrued dividends payable on Class A shares	338
	$ 28,138

The Class A shares entitle Food Services to a fixed cumulative preferential cash dividend at a rate of $1.075 per share per annum. The Class A shares may be redeemed at the option of Food Services into A&W Notes of the Company on the basis of $10 principal amount of A&W Notes for one Class A share and, in turn, one common share of the Company and a $10 A&W Note are exchangeable for a Unit in the Fund. Accordingly, the Class A shares are classified as liabilities of the Fund and the cumulative dividends are classified as interest expense in the consolidated statement of earnings.

9. Trust Units

The Declaration of Trust provides that an unlimited number of Units may be issued. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions of the Fund and in the net assets of the Fund. All Units have equal rights and privileges. Each Unit entitles the holder thereof to participate equally in allocations and distributions and to one vote at all meetings of Unitholders for each whole Unit held. The Units issued are not subject to future calls or assessments.

Units are redeemable at any time at the option of the holder at amounts related to market prices at the time, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of distribution in specie of a pro rata number of securities of the Company held by the Fund.

On February 15, 2002, the Fund issued 8,340,000 Units at $10.00 per Unit pursuant to a public underwriting. Expenses of the offering amounted to $6,285,000, net of future income taxes, and were charged to Unitholders' equity.

	Units	
Issue of Trust Units	8,340,000	$ 83,400
Less: Expenses of the offering ($8,112,000), net of future income taxes of $1,827,000	—	6,285
	8,340,000	$ 77,115

10. Administration agreement

The Fund has entered into an administrative agreement with the Company whereby the Company at its expense will provide or arrange for the provision of services required in the administration of the Fund for the next 10 years. In turn, the Company has arranged for certain of these services to be provided by Food Services.

11. Related party transactions and balances

During the period, royalty income of $11,529,000 was earned from Food Services, of which $1,149,000 is receivable at December 31, 2002. The balance of $117,000 in accounts receivable was also due from Food Services and relates to the reimbursement of costs associated with the public offering.

Other related party transactions and balances are referred to elsewhere in these consolidated financial statements.

12. Subsequent events

a) Change in royalty pool

Effective January 5, 2003, the number of A&W restaurants for which royalties are paid to the Fund has been increased to include the revenues from 27 new restaurants less 8 permanently closed restaurants. The Company paid Food Services $5,505,000, by issuance of 487,624 Class B shares, as initial consideration for the royalty stream from the 19 net additional restaurants added to the royalty pool. A final adjustment to the Class B share consideration will be made in December 2003 based upon the 2003 annual gross sales reported by the new restaurants. Until the 2003 gross sales of the new restaurants are reported, 20% of the Class B shares will be held in escrow. The Class B shares have substantially the same terms as the Class A shares (see note 8).

The issuance of the Class B shares comprise the first payment of the $40,000,000 unpaid consideration on the acquisition of the A&W Marks and will be recorded as an additional cost of the A&W Marks (note 4).

b) Declaration of distributions in respect of 2002

On January 6, 2003, the Trustees declared a distribution payable to Unitholders of record on January 15, 2003 of $0.09 per unit ($750,600) payable on January 31, 2003.

Board of Trustees

John McLernon - Chairman

John McLernon is Chairman and Chief Executive Officer of the Colliers Macaulay Nicolls Group of Companies, the largest partner of the Colliers International Commercial Real Estate Services global organization which has 210 offices in 54 countries. John has been active in the real estate industry since 1968. He attended Bishops College School and received his Bachelor of Arts from McGill University. John has served as a director on numerous corporate boards, and also sits on several boards within the theatre and arts community.

Don James - President

Don James is a founder, principal shareholder, CEO and Vice Chairman of Deeley Harley-Davidson, the exclusive Canadian distributor of Harley Davidson motorcycles, motor parts, accessories and motor clothes. Don attended the University of Alberta prior to enrolling at Simon Fraser University. He is a graduate of Harvard University's Owner/Presidents Management Program and has also attended Stanford University. He is Past Chairman of the Young Presidents' Organization. Don was a recipient of the Canadian Business Entrepreneur of the Year for the Pacific Region award in 1995.

Conrad Pinette - Secretary/Treasurer

Conrad Pinette is the President and Chief Operating Officer of Lignum Limited, one of Canada's largest, privately-held forest products companies. Conrad attended the University of British Columbia where he majored in Forestry, prior to becoming owner, manager and President of a family lumber business until its sale in 1980. As Chairman of Pinetree Developments Ltd., he continues to be responsible for another established family business. He is a director of Finning International and was appointed Chairman of the Board of Finning in 2000. He has also served as a director of a number of public resource companies. He was an active member of the Young Presidents' Organization and is now a member of the World Presidents' Organization.

Unitholder Information

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A & W REVENUE ROYALTIES INCOME FUND BOARD OF TRUSTEES

A & W TRADE MARKS INC. BOARD OF DIRECTORS

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

AUDITORS

PricewaterhouseCoopers LLP

MARKET INFORMATION

Units Listed:

Toronto Stock Exchange

Symbol: **AW.UN**

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